



Performance Audit: Schools Becoming Medicaid Providers

*Prepared for the Committee on Legislative Research
by the Oversight Division*

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Members of the Committee on Legislative Research:


Pursuant to your resolution of June, 1994, we have concluded our program audit of the program "Encouraging Schools to Become Medicaid Providers" as included in House Bill 564. Our audit was conducted in accordance with generally accepted government auditing standards as they pertain to program and performance audits. We did not examine departmental financial statements and accordingly do not express an opinion on them.

Overall, we conclude the Departments of Social Services and Elementary & Secondary Education are making progress in enrolling school districts as Medicaid providers for the purpose of earning federal matching funds. However, we did note several areas for improvement regarding the use of available resources and the general administration of the program.

Our examination revealed the Department of Social Services did not hire personnel or spend funds as specified in the appropriations resulting in a decreased effort on the program. The agency has not developed goals for the program or a systematic and comprehensive approach to achieving them. We estimate that perhaps as much as \$11 million per year in additional federal matching funds could be obtained if all school districts in the state were actively participating in this program.

Additionally, the Departments of Social Services, Elementary & Secondary Education, Health and Office of Administration have not fully coordinated their procedures in order to guard against duplication of effort and to ensure efficient operation of the program to maximize the service to school districts and ultimately to the citizens of our state.

The accompanying report includes our comments on internal controls, compliance with legal requirements, management practices, program performance and related issues. We hope this information is helpful and can be used in a constructive manner for the betterment of the state program to which it relates.


Jeanne Jarrett, CPA
Director

Introduction

The Joint Committee on Legislative Research directed the Oversight Division to conduct a program audit of school districts becoming Medicaid providers as included in House Bill 564, which was Truly Agreed To and Finally Passed during the 87th General Assembly First Regular Session. This legislation became effective August 1993 and affected the following agencies: Department of Social Services (DOSS), Department of Elementary and Secondary Education (DESE), Department of Health (DOH) and Office of Administration (OA). One of the components of HB 564 directed DOSS and DESE to develop a plan to encourage schools to become Medicaid providers and to provide the most accessible care to school age children. In addition, the Health Initiatives Fund (HIF) was established to provide grants to public schools, public school districts or local public health departments to expand school children health services for all school age children. Also, provision was made for school districts to arrange for a portion of their foundation formula funds to be transferred into the newly created HIF in order to earn federal funds, which would reduce the amount of General Revenue to be appropriated for administration of the program. Some school districts were enrolled as Medicaid providers previous to the legislation. However, the passage of HB 564 resulted in appropriation of additional staff and associated expense and equipment to assist in a promotional effort. Since school districts were already required by Federal legislation to provide many of these health care services, the intent of the legislation was to increase enrollment of schools as Medicaid providers and maximize federal fund reimbursement. This audit informs the General Assembly of whether the program is operating efficiently, effectively and in accordance with legislative intent.

Background

Medicaid in the schools evolved as a result of language in the Omnibus Budget and Reconciliation Act (OBRA) of 1989. A component of this act outlined new and increased goals for the number of Early Periodic Screening Diagnosis and Treatment (EPSDT) screenings required per year. States are

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expected to adhere to these new goals within a particular time frame, or risk having their Medicaid funding capped. Therefore, the schools seemed to be the logical place to assist in achieving these increased goals for the EPSDT screenings.

There are three methods in which a school district can become a Medicaid provider: 1) Administrative Case Management (ACM); 2) Direct Service; and/or 3) Primary Care. The following discussion further explains these methods.

1) ACM is designed to reimburse school districts for performing administrative activities associated with the coordination of health care services for children; ACM manages the flow of activity that brings the child in need of service and the provider of service together. ACM centers on the process of identification of children with health care needs, making and following up on referrals and completing the loop of identification-examination-diagnosis-treatment. DOSS, Division of Medical Services (DMS), processes the invoices for the ACM program. School districts submit invoices quarterly; billing is based on percentage of staff time spent, percentage of Medicaid eligible students and an applicable percentage of 50% or 75%, depending upon whether the administrative function was performed by a skilled or a non-skilled professional employee.

2) Direct Service can be provided through the Medicaid Early Periodic Screening, Diagnosis and Treatment program (EPSDT) and is known in Missouri as the Healthy Children and Youth (HCY) program. Occupational, physical and speech therapies, as well as psychological counseling and social worker services, are the treatment categories for which reimbursement can be sought. Services must be medically necessary. To process payment of claims for direct service, DMS contracts with a fiscal agent, GTE Data Services. Once a therapist has enrolled and has been approved by DMS as a Medicaid provider, the therapist/provider receives a packet of various billing forms from GTE Data Services. GTE Data Services processes all Medicaid claims for various programs. The therapy services provided in the school districts comprise less than one percent of the total Medicaid claims processed by GTE Data Services.

3) Primary Care relates to a clinic located on-site at the school. For purposes of this audit, analysis was not made for the primary care program, since the majority of schools could not achieve delivery of health care of this magnitude, given a more limited number of health care professionals in rural areas. Presently, only one school district, Independence, has such a clinic.

The federal fund reimbursement in State Fiscal Year (SFY) 94 for the ACM and Direct Service programs was \$5,174,768 and \$842,394, respectively. Transfer of funds to DESE in the amount of \$519,191 for the ACM program is included in these figures. During SFY 94, federal reimbursement was received for nine school districts in the ACM program and for 61 school districts in the Direct Service program, resulting in a collective participation of 11.8% of the school districts in either one or both the ACM and Direct Service programs.

In addition to schools receiving federal fund reimbursement for the Medicaid programs, a total of \$5,411,590 in grant funds from the Health Initiatives Fund is available to expand school children health services for all school age children in SFY 95.

Objectives

The primary focus of the audit was to inform the General Assembly of whether the assigned state agencies are encouraging the schools to maximize federal funds through Medicaid enrollment, assisting schools in accessing funds through available grants and encouraging the schools to use the HIF fund in order to reduce General Revenue to be appropriated for administration of the program. Specifically, Oversight staff concentrated efforts on six objectives:

- ▶ To determine if the available resources were utilized effectively to carry out the legislation.
- ▶ To determine if DOSS and DESE are effectively encouraging public schools and school districts to be Medicaid providers and assisting schools in accessing available funds to expand health care services for all school-age children.
- ▶ To determine the amount of increased federal funds as a result of schools becoming Medicaid providers and to determine the timeliness and procedural compliance of the reimbursement process.
- ▶ To determine if agencies are providing proper supervision/monitoring of the ACM and Direct Service programs.
- ▶ To determine if grant administration is being carried out efficiently and effectively.
- ▶ To determine if the intergovernmental transfer process is operating as intended in the legislation.

Scope

The scope of the audit focused on Sections 1 through 9 of HB 564. The time period examined for all areas except the administration of grants was SFY 94. Comparison was made between SFY 93 and SFY 94 relating to the number/percentage of schools enrolled, as well as the amount of federal reimbursement for the ACM and Direct Service programs. Analysis of the grant program had some limitations, since the first grants were awarded in SFY 95 and records were available for only a partial fiscal year. Oversight focused on testing the development of adequate internal control procedures and proper monitoring of the grantees, with examination of records for the first round of grants awarded during SFY 95.

Methodology

The Oversight Division conducted the audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States as those standards relate to performance audits. The methodology used by the Oversight Division included tests of samples of transactions and evaluations of management controls to the extent necessary to fulfill our audit objectives. A primary method used to measure objectives was conducting personal interviews with agency personnel. Additionally, the auditors performed on-site testing of controls and procedures. Agencies also provided documentation as requested. Another method utilized was direct observation during the grant review process. The Auditors attended a meeting of the selection committee during which time the primary and secondary reviewers discussed and scored grant applications. Oversight Staff then continued the process at the interdepartmental panel review, where final decisions were made on grant recipients. Finally, a survey method was utilized to assist in the analysis of the effectiveness of the program, including current techniques of encouragement and training offered by the agencies. Surveys were sent to school superintendents in approximately ten percent (10%) of the 533 school districts, which were chosen by a computer random number generator. School districts were divided into three categories:

active/billing providers, inactive/non-billing providers and nonparticipating school districts. Survey results were compiled based upon 52 (96%) completed surveys.

Findings

Recommendations

Agency Responses

FINDING #1: The resources provided to the Department of Social Services to encourage schools to become Medicaid providers were not used as planned or intended.

The seven new FTE positions that were filled were different in salary and title than those listed in the fiscal note for HB 564 and in the budget submissions for Fiscal Year (FY) 94 Supplemental and FY 95. It was found that the salaries of the current positions are \$27,252 higher than requested in the fiscal note, which represents a 17% increase. Also, titles and responsibilities were different for three of the seven requested positions. The fiscal note requested two Medicaid Technicians and a Clerk Typist II, but currently, there are two Medicaid Specialist positions and a Medicaid Technician position filled. Medicaid Specialist positions have different duties than Medicaid Technician positions, as well as higher salaries, as does a Medicaid Technician in comparison to a Clerk Typist II. No written justification or approval was available for the FTE position changes.

Additionally, upon review of Performance Standards and Job Descriptions and conducting interviews with employees of the program, it was discovered that a portion of, or in some instances, all of program employees' time is spent performing duties other than encouraging schools to become Medicaid providers. The Community Health Nurse currently spends 60 - 65% of her time working on the Quality Control aspect of the ACM program. This has only been since July 1, 1994, even though her position was funded in the FY 94 Supplemental Budget, which was effective on March 7, 1994. The Program Development Specialist does not currently spend any of her time working on encouraging schools to become Medicaid providers. The Accountant II appears to be performing duties that are consistent with what

was requested in the fiscal note. The Medicaid Technician position currently spends 25% of her time working on encouraging schools to become Medicaid providers. The two Medicaid Specialist positions have different duties. One of them has duties that involve a self-check of the school districts to see if the Medicaid program is helpful to the school districts, and to determine if they are getting the full benefit of the program. This seems to parallel the efforts of the Community Health Nurse position, but again does not involve the encouragement of schools to become providers. The other Specialist's duties revolve around the Healthy Children and Youth (HCY) program. She spends 40% of her time training and meeting with school personnel about the HCY program; the remainder is spent on other duties. The Medicaid Unit Supervisor spends only 50% of her time working on HB 564 issues, even though she is the supervisor of the employees of this program. Overall, none of the seven requested positions were being utilized effectively to encourage schools to become Medicaid providers.

In addition to the inefficient use of staff time, the funds that were appropriated for this program in FY 94 were not fully utilized. A total of \$66,753 was appropriated by the State Legislature to fund the new positions; however, only four positions were filled in FY 94, leaving \$34,639 of the appropriated funds unused. Additionally, a total of \$172,971 was appropriated for expense and equipment; DMS reported they had returned \$150,412 of the total appropriated. However, it was found that only \$93,196 had been returned at year end, leaving \$57,216 unaccounted for, and apparently used for other than its intended purpose.

In total, \$239,724 was requested by the Department of Social Services, and appropriated by the State Legislature for this program in FY 94. 77 % of this amount (\$185,051) was not utilized by the Department of Social Services for this program as requested, with \$57,216 spent for other than its intended purpose and unaccounted for. Because funds provided to the Department of Social Services for this program were not used in an effective manner, the program's success at encouraging schools to become Medicaid providers was greatly hindered.

RECOMMENDATION TO FINDING #1

- ▶ DOSS should re-align the duties of the seven requested personnel positions to ensure their time is spent encouraging schools to become Medicaid providers.

Additional Comments To Finding #1

The response to the fiscal note stated that "to coordinate an aggressive statewide program in 541 school districts and 38 schools for the handicapped, blind and deaf, DMS staff will request . . . [seven additional FTE]". This is interpreted that the new employees were hired to perform duties exclusively relating to encouragement of schools becoming Medicaid providers as included in HB 564.

AGENCY RESPONSE TO FINDING #1

Department of Social Services

Fiscal notes for additional FTE positions are developed a full year or more before staff are hired, and often before programs are fully developed and implemented. Cost projections for staff represent the best estimate of staffing needs that can be made at that time. The fiscal note for HB 564 was developed in January 1993, and funding for staff was not received until July 1994, a full 18 months later. It is within the Department's authority to reclassify positions at the time staff are actually hired, based on the needs at that time, as long as personnel expenditures for the total Division remain within the total personnel budget for that fiscal year. The cost of each position is based on an estimate of salary and benefits at the mid-point of the range for that position. Staff who actually fill those positions may be started at more or less than the estimate, depending upon whether they are new to state government and begin at Step A, or have worked many years for the Department and may be promoted to a step higher in the range, according to the promotion formula used by the Department.

Some staff filling HB 564 positions are performing other duties. However, a number of other staff, not in HB 564 positions, perform significant amounts of work pertaining to Medicaid in schools and issues relating to HB 564, who more than make up what appears to be a deficit on HB 564 function. There are one full time and one part time staff in the DMS Policy Unit (non-HB 564 positions) who spend 100% of their time in school-based Medicaid functions.

In addition, there are two clerical staff (non-HB 564) who spend up to 50% of their time with HB 564 related duties, such as maintaining a training waiting list and log, typing letters and program manuals, managing activity tracking

systems of participating school districts, and assisting with state plan amendments to the Health Care Financing Administration (HCFA) necessary for each new school district to conduct administrative case management. Several HB 564 positions are supervised by non-HB 564 staff, who engage in HB 564 activity by reviewing and approving work, advising, consulting, attending meetings, etc. Other program staff in the Policy Unit manage programs that overlap programs in schools (Independent Therapist and Psychology/Counseling, for example), and must work closely with HB 564 staff when drafting policy, making systems changes, etc. Provider Enrollment, Medicaid Management Information System (MMIS), Surveillance and Utilization Review Subsystem (SURS) and Program Relations staff (all non-HB 564 positions) spend time processing enrollment applications from schools, answering billing questions, performing utilization reviews, managing systems work, and performing other functions necessary for the administration of school-based Medicaid programs. If each of the 240+ employees of the Division of Medical Services were to assess the average percent of their time spent in duties which are directly related to schools as Medicaid providers, the total amount of time would exceed the work of 7 FTE positions.

It is neither efficient nor effective to implement a statewide program or expand a program as complex as Medicaid by assigning the entire responsibility to only the new FTE allocated for such an effort. The program may only be managed effectively by spreading the responsibility across many staff in several organizational units. The amount of responsibility for the new program given to staff in new FTE positions will vary from a small percent, up to 100%, depending upon how other existing job responsibilities are assigned or reassigned, as evidenced by this review.

A correction should be made in this finding pertaining to the Community Health Nurse time spent on HB 564 related duties. The nurse spends 100% of her time on school Administrative Case Management (ACM) quality assurance monitoring and in activities pertaining to the advanced practice nurse program. (The advanced practice nurse program is a part of HB 564.)

Some of the funds appropriated for FY94 were not used, because positions could not be filled prior to the end of the fiscal year. It takes at least two months to pull a merit register, notify those on the register of an opening, conduct interviews, make a selection, and hire. If the register first is opened for new applicants who

must apply through the OA Personnel Division, take a test, and be scored before being placed on the register, this process can exceed six months.

The Division receives a total appropriation for equipment and expense each year, comprised of small line items from various budget categories. Some funding for equipment was not used, as it was not appropriated until very late in the fiscal year. Equipment and expense funding not expended in the fiscal year in which appropriated must be returned. Due to the state's purchasing processes, any item ordered and not received by June 30 shall be cancelled or paid with next fiscal year's funds. Equipment and expense appropriations were disbursed on rent payments for these staff, and modular items purchased as part of a building wide expansion. It should be noted that all HB 564 staff, as well as all Division staff, have a personal computer, desk, chair, phone, and other equipment and supplies necessary for carrying out their jobs.

FINDING #2: The Department of Social Services and the Department of Elementary & Secondary Education have not developed a plan, as statutorily required, designed to encourage school districts to become Medicaid providers and to provide the most accessible care to school age children.

Although DOSS and DESE have developed procedure manuals for components of the program, there is no coordinated plan outlining the type of action to be taken by each agency to encourage school districts to become Medicaid providers. The procedure manuals for this program are designed to be used when a school district has chosen to become a Medicaid provider.

The failure to develop a plan which assigns areas of responsibility to each agency has resulted in no clear delineation of authority and some duplication of effort. It also violates a provision of Section 167.606(1), RSMo.

RECOMMENDATIONS TO FINDING #2

- ▶ DOSS and DESE should, as required by statute, develop a coordinated plan which encourages school districts to become Medicaid providers and provide the most accessible care to school age children. The

plan should be in written form and document a systematic and comprehensive approach to achieving goals for the program.

- ▶ DESE should be designated the lead agency and an individual be appointed as the coordinating authority for the program.

AGENCY RESPONSES TO FINDING #2

Department of Social Services

The Department of Social Services does not agree. The Departments of Social Services and Elementary and Secondary Education have worked together extensively to formulate and revise, as needed, a plan of action to:

- a) evaluate the needs of school-aged children for health care services,*
- b) design Medicaid service options in which school districts in Missouri could participate to address the identified needs of students, and*
- c) develop a comprehensive communications and technical support program to promote and assist in the implementation of this voluntary program among school districts.*

Goals for Medicaid participation by schools are established during the DOSS budget and planning process for upcoming fiscal years. Currently about 30 school districts are either operational with ACM, or are in some phase of active planning. This number is expected to double by the end of this state fiscal year.

DOSS has plans to initiate phone contact during this fiscal year with all districts which are not billing, to offer assistance and education. On site visits will be scheduled if necessary.

DOSS and DESE plan to develop an advanced training package for school districts already participating in ACM. Program reviews conducted thus far have indicated a need for further training and policy clarification.

It is not appropriate that an individual agency be identified as the "lead agency" because of the nature and scope of the need being addressed. Rather, a

coordinated interagency effort which includes all policy stakeholders, foremost of which is the Joint Committee, is appropriate and necessary.

The measurement of success toward goals will become part of the program compliance review process in subsequent fiscal years.

Department of Elementary & Secondary Education

We (DESE), together with the Department of Social Services, have developed not one, but several written plans by which school districts may participate in Medicaid programs. Evidence of district awareness of these plans is reflected in school districts voluntarily participating in direct service programs, administrative case management services, as well as the intercooperation with community-based providers to deliver various primary and preventive services.

The proposal to make DESE the "lead agency" in this effort would conflict with the direction provided in statute and, further; would not acknowledge the consensual interagency nature which relations must follow in that there are overlapping and interdependent duties among the agencies in this and other similar programs.

Regarding the establishment of participation targets from year to year, it is essential to realize that participation is voluntary and, as such, will vary over time. The agencies continue to encourage districts to participate; however, placing quotas and targets is not appropriate considering participation is voluntary. The agencies do consider periodic review of promotion activities to be warranted and have begun such.

Oversight's Comment:

At the time audit fieldwork was conducted, documentation of a coordinated written plan for administration of the program did not exist.

FINDING #3: The Department of Social Services and the Department of Elementary & Secondary Education have been successful in informing school districts of the existence of the program; however, they have not achieved maximum effectiveness through their current techniques to encourage school districts to become Medicaid providers and to assist school districts in accessing available funds to expand health care services for all school age children.

The Oversight Division conducted an independent, random sample survey which was sent to the school superintendents in approximately 10% of the school districts. Survey results revealed the primary tool used to encourage school districts to become Medicaid providers was the Medicaid Information letter provided by DESE. Nearly all schools surveyed were aware of the passage of HB 564 and the existence of the program. However, very few schools had received personal contact from a state agency. Providing one-on-one contact could be more effective in encouraging school districts to become Medicaid providers and in dispelling their fears and concerns related to the complexity of the Medicaid program. Some of the non-participating school districts surveyed indicated they had not received enough detailed information and did not know enough about the program to become involved in it.

Many school districts are not aware of the availability of grants through the Health Initiatives Fund (HIF). The survey results indicated that forty-six percent (46%) of the school districts were not aware of the availability of grants through the HIF, and of the school districts aware of the grants, 75% have not made application.

Both departments provide some degree of training on claims filing, ACM, and Direct Service. However, seventy-one percent (71%) of the school districts surveyed had received no Medicaid training since the passage and enactment of HB 564.

Of 533 school districts, 203 are enrolled as Medicaid providers. However, of those enrolled, only 66 school districts (12%) are considered "active" or billing for services, while 88% are either not participating or not actively billing. Non-participating and inactive (i.e., not billing) school districts are not maximizing their potential to earn federal dollars, which could be used

to expand health care services to all school age children. Although the Departments have aggressively disseminated information, an acceleration of training, combined with increased personal contact, would enhance the effectiveness of the program.

RECOMMENDATIONS TO FINDING #3

- ▶ DOSS and DESE should establish goals for each fiscal year on the number of school districts the departments expect to contact on-site or by telephone regarding enrollment in the Medicaid program, as well as the availability of grants. Evaluation should be made as to whether established goals were met, and if necessary, take action to correct any deficiencies.
- ▶ DOSS and DESE should develop and implement joint training procedures with established goals specifically designed for school districts becoming Medicaid providers. Evaluation should be made as to whether established goals were met, and if necessary, take action to correct any deficiencies.

AGENCY RESPONSES TO FINDING #3

Department of Social Services

The Departments of Social Services and Elementary and Secondary Education have engaged in an extensive coordinated program of communications and technical support with school districts.

While the survey indicated 71% of school districts surveyed have received no Medicaid training, in reality, 100% of school districts are provided with summary information about the Medicaid program, are notified of the availability of training via the Medicaid Information Newsletter, and are instructed to contact DOSS to schedule training. DOSS and DESE provide training on a regular and ongoing basis to 100% of the school districts requesting training. It would serve no purpose to provide complete training to a school district prior to the decision to participate in a program.

Department of Elementary and Secondary Education

Our Department, together with the Department of Social Services, have engaged in an extensive coordinated program of communications and technical support with school districts.

Our Department provided information repeatedly via various formats to schools of the availability of health care grants. However, we were not allowed to provide meaningful input into the formulation of the time lines and application procedures used for the first year of the program.

FINDING #4: The Department of Social Services has not explored the option of providing Medicaid payment incentives to school districts to encourage a school district to become a Medicaid provider.

DOSS has not determined what effect the provision of Medicaid payment incentives to school districts could have on the program. Early during the budgetary process, discussions centered around using incentives as part of the grant process. However, when DOH became the lead agency with regard to the grants, there were no further discussions concerning incentives. DOSS assumed that incentives would be used as an encouragement mechanism, but neither DOH nor DOSS has taken action.

Furthermore, DOSS has not requested a legal opinion or other clarification on the definition of "Medicaid payment incentives". DOSS has concluded, however, that if Medicaid payment incentives were defined as increases in reimbursement rates, then approval would be required from the Health Care Financing Administration (HCFA) and amendment to the state plan would be necessary.

Failure to explore the option of Medicaid payment incentives as an encouragement technique could be resulting in fewer school districts becoming Medicaid providers.

RECOMMENDATIONS TO FINDING #4

- DOSS should obtain a definition of Medicaid payment incentives.

- ▶ DOSS should perform an analysis of providing Medicaid payment incentives to school districts to determine if providing incentives could positively impact the number of school districts enrolled as Medicaid providers.
- ▶ DOSS should implement procedures for the provision of Medicaid payment incentives if the analysis reveals a positive impact for increased school enrollment in the Medicaid program.

AGENCY RESPONSE TO FINDING #4

Department of Social Services

The DOSS has explored this option, and has determined there is no option for Medicaid payment incentives that would qualify for federal match. Payment incentives must be 100% funded from state general revenue, which would require a budget decision item. This item has not been included in the FY96 DOSS budget request because of other Medicaid funding priorities of the Department, which include the expansion of the Medicaid eligibility to the low-income, and uninsured, and the expansion of Medicaid managed care.

FINDING #5: The Department of Social Services does not adequately monitor the Administrative Case Management (ACM) program for compliance.

The ACM program which had federal reimbursement in SFY 94 in excess of \$4,000,000 to the school districts is not monitored. DMS plans to implement a review process soon with an outside consultant/contractor and has submitted a Request for Proposal (RFP). However, completing the RFP process and hiring the consultant could involve several months. DMS has developed written guidelines for monitoring compliance (drafted 7/7/94) and is currently applying those guidelines to a pilot project in St. Louis City. DMS wanted to test the monitoring program they developed to determine the specific procedures that would result in the most effective review process. Even though a test review has been conducted, it is not complete and therefore, no results have been compiled. However, DMS staff noted that problems had been identified.

Since the ACM program is essentially unmonitored, school districts lack guidance and the potential for discrepancies and program abuse exists. Furthermore, as the program progresses, the federal reimbursement will increase, as will the capacity for larger discrepancies.

RECOMMENDATIONS TO FINDING #5

- ▶ DOSS should develop a monitoring schedule for the ACM program, which outlines goals for the number/percentage of schools in the ACM program to be monitored on an annual basis.
- ▶ DOSS should conduct and/or arrange for completion of the ACM reviews as outlined in the monitoring schedule. A self-monitoring program, if conducted properly, would be effective to achieve this goal.
- ▶ DOSS should evaluate at the end of each fiscal year whether the established goal for schools monitored was met, and if necessary, take action to correct any deficiencies in the program.

AGENCY RESPONSE TO FINDING #5

Department of Social Services

The Community Health Nurse position, intended to manage and oversee program compliance reviews, was not filled until July 1994. The first program review was begun approximately the third week in July.

Prior to January 1994, only three school districts and the state schools had been paid for ACM. Between January and July 1994, about 15 more school districts began implementing ACM, and began billing during this time. Prior to January 1994, DMS had one staff person to work with the ACM program. This individual had to conduct training, review and approve methodologies, and perform all other duties pertaining to this program, as well as carry out the job function of Deputy Director for Policy for the state's entire Medicaid program. When additional FTE staff began to be added during FY94, the priorities for these staff were to finalize a program manual, continue to meet the ongoing demand for training, ensure payments were processed in a timely manner, develop

a program review instrument, and generally manage this rapidly growing program.

Representatives from the Health Care Financing Administration (federal Medicaid agency) did not conduct a review of the state's operation of ACM, and our draft instrument for conducting program reviews, until September 1994. We believe it would have been counterproductive to begin full-scale monitoring of the program prior to this event. Since September, five program reviews have been conducted, and three more reviews are scheduled to take place after the holidays.

FINDING #6: The Department of Health does not provide sufficient internal controls in the administration of the grant program.

Three areas in the grant administration program would benefit from stricter internal controls: 1) initial approval process; 2) reimbursement process of grant awards; and 3) monitoring/follow-up of grantees.

1) Initial approval process: Grants are awarded even though complete required documentation has not been received. The grant review committee may decide to fund a grant "contingent" upon receipt of additional information, i.e., further information on job duties of requested personnel, justification for certain equipment/supplies or clarification of basic objectives of the grantee's plan. However, with no indication this requested information has been either received or approved, funding is given, with no reduction for the questionable items. There is no logging system in place to track the receipt of requested information or procedures in place for its approval.

Of the twenty (20) grants awarded during the first round, ten (10) grant files indicated the need for additional information at the time the grant was awarded. The ten grants examined totaled \$850,618. However, the amounts in question were not for the entire amount of the grant, with the exception of one grant in the amount of \$40,765. In this example, the recommendation of the grant review committee was not to fund the grant, but to provide technical assistance to the grantee. However, the grant was still awarded.

The decisions made on some grant applications could represent a conflict of interest. Each application entails two independent reviews, in addition to a final review by members of the inter-departmental selection committee. Of the twenty (20) grants awarded during the first round, five (5) could give the appearance of a conflict of interest due to the individuals

selected to review the applications. In one application, the secondary reviewer was from a neighboring county in the same Health District as the school district making application. In three applications, either the primary or secondary reviewer was also a member of the inter-departmental selection committee. Finally, in another application, the secondary reviewer was an employee with DOH in the same division from which the awards are granted.

Even though the auditors noted no evidence of bias in the current grant selection process, the appearance of a conflict of interest could challenge the credibility of the process.

2) Reimbursement process of grant awards: Requirements for payment requests do not include source documentation of expenditures, i.e., invoices/delivery receipts for equipment, time sheets of employees, etc.

This current requirement does not allow for adequate safeguard of assets and is designed to discover irregularities "after the fact", rather than concentrate efforts on preventing their occurrence. Also, source documentation, i.e., invoices for computer equipment listing identification numbers, could be very helpful documentation when conducting reviews and making on-site inspections to determine if certain equipment has been purchased and is in use.

3) Monitoring/follow-up of grantees: Since the first grants were recently awarded in FY 95, compliance monitoring of grantees has not been conducted. However, DOH proposes that monitoring of the grantees will be performed by a District Health Nurse.

The District Health Nurse would have the expertise to review the delivery of service, and it is possible that little emphasis would be placed on the financial aspect. Additionally, the guidelines in the Administrative Manual are vague regarding the sampling of records to verify that reported services were provided in accordance with established standards and procedures. Therefore, Oversight has concern whether the District Health Nurse would be trained in this area and have the ability to properly monitor compliance from a fiscal perspective.

RECOMMENDATIONS TO FINDING #6

- ▶ DOH should develop a logging/tracking system to track requested information.
- ▶ DOH should develop procedures to deal with "fundable" grants requiring additional information, i.e., 1) hold grant awards until all required documentation is received and approved; 2) defer a

decision on the project until the next funding cycle; or 3) make only a partial funding award.

- ▶ DOH should modify procedures to ensure no conflict of interest exists in the selection process of grant recipients.
- ▶ DOH should modify procedures to incorporate a requirement of source documentation for payment requests.
- ▶ DOH should assign an employee with a fiscal background, in conjunction with the District Health Nurse, to conduct the compliance reviews.

AGENCY RESPONSE TO FINDING #6

Department of Health

Regarding conditional funding of grants, the Department modified its funding approval process in the third funding cycle as follows: Where there were issues or concerns about a particular item in an application which needed clarification, that item was deleted from the budget or the award was withheld until such time as the applicant provided sufficient documentation. Several statements made in the paragraph beginning "of the twenty (20) grants awarded..." are misleading. No invoices were approved for payment until all documentation needed to satisfy the funding committee's concerns had been received and budgets revised. Once this is understood, it becomes clear that none of the \$850,618 was in question at the time of payment. Regarding the grant for \$40,765; while the grant review team did not recommend funding this grant, the recommendation was overruled by the Inter-Departmental selection committee based upon the primary and secondary reviewers' comments and ranking of the application. The letter of award sent to the grantee was reduced from the original request of \$56,106. The granted amount excluded any funding for the items in question. Also, the letter stated that if the grantee felt they would need technical assistance in revising their budget or clarifying the staffing pattern (the schedule of who would be at which school and when), then they could be funded.

Regarding the suggestion to put into place a logging system to track the receipt of required information, we currently accomplish this at the individual grant file level. Each grant file includes information needed, a copy of the information,

when it was received and whether it was approved. We will, however, take your suggestion into consideration.

The current grant review process places the responsibility on the reviewers to disqualify themselves from reviewing a grant or abstain from participating in group discussion on a grant for which they feel they may have a conflict of interest. No grant was assigned to a reviewer who had provided technical assistance to the potential grantee. Additionally, during the third cycle grant reviews, no member of the Inter-Departmental selection committee participated directly in reviewing any grants in a primary or secondary capacity. The Department made this change in procedure to address the issue of conflict of interest.

Source documentation for expenditures, as well as descriptions of items purchased, have always been required by the Department for equipment, computers, etc. Requiring time sheets is additional paper work that would serve little purpose without further payroll records. During compliance monitoring, documentation must be available which substantiates and verifies the time worked and salary paid.

Regarding monitoring/follow-up of grantees, we will take the recommendation into consideration.

Oversight's Comment:

The third funding cycle occurred subsequent to audit fieldwork. Oversight has not tested any changes DOH management states they have made. Oversight's observations and findings are based on documentation existing at the time audit fieldwork was performed.

FINDING #7:

Office of Administration and the Departments of Social Services and Elementary & Secondary Education have not provided sufficient information to school districts about the Health Initiatives Fund (HIF) or developed mandated procedures and rules and regulations relating to the use of HIF as an alternative Medicaid reimbursement method.

OA, DOSS and DESE have not developed procedures to allow school districts to arrange for a portion of their foundation formula funds to be transferred to the HIF for the purpose of earning federal funds in accordance with the federal Medicaid law, 42 USC 1396, et seq. Rules have not been promulgated by these agencies to ensure implementation. Furthermore, DOSS has not developed rules and regulations governing the actual percentage of federal dollars to be retained by the state if the HIF is used. Additionally, DOSS has not provided annual assessments to school districts, which have elected to become Medicaid providers, identifying the amount of money a school district would contribute to underwrite the costs of providing services. Finally, DOSS has not committed additional general revenue funds for Early Periodic Screening Diagnostic Testing (EPSDT) and primary and preventive health care services for school districts with a disproportionate share of eligible children.

A component of the survey sent to the school districts revealed that 58% of those sampled were not aware of the existence of the HIF. Furthermore, 81% were unaware that foundation formula funds could be transferred to HIF to earn federal dollars. Currently, no school district is using this transfer procedure. The lack of information being provided and the lack of established procedures could deprive school districts of the opportunity to utilize the HIF as an alternative reimbursement method. Additionally, DOSS would benefit from the schools' use of the HIF, since it would be able to retain a portion of the federal dollars earned to help defray the administrative costs of the Medicaid program. This in turn, could reduce the amount of General Revenue appropriated for the Medicaid program and allow these funds to be appropriated for expanded health care services for school districts with a disproportionate share of Medicaid eligible children.

RECOMMENDATIONS TO FINDING #7

- ▶ OA, DOSS and DESE should disseminate information to each school district regarding the Health Initiatives Fund.
- ▶ OA, DOSS and DESE should, as required by Section 167.609(2).1, RSMo, develop written procedures and rules and regulations to allow school districts to use the Health Initiatives Fund as an alternative Medicaid reimbursement method.

AGENCY RESPONSES TO FINDING #7

Office of Administration

... The Oversight staff finding, if implemented, would result in added state bureaucracy and less federal funds going to school districts as Medicaid providers.

As acknowledged by the Oversight Division finding, schools using the HIF for federal reimbursement will have reduced Medicaid matching funds since the state would "retain a portion of the federal dollars earned to help defray the administrative costs". Expending state resources, as the Oversight finding suggests, to promote the HIF reimbursement option to schools, with schools then receiving less federal funding than they now receive, would not be beneficial to Missouri citizens nor a wise investment of resources.

Department of Social Services

The Oversight Division is correct that there have been no rules promulgated or procedures established for diverting the school's foundation funding through the HIF as a funding mechanism for Medicaid. This process is not required in order to claim the foundation funds as the non-federal share of Medicaid. Through the intergovernmental transfer provision in federal regulation, as long as the public school district certifies its use of local, non-federal funds, costs incurred are matchable in the federal Title XIX (Medicaid) program.

In the current process, the federal share of allowable Medicaid costs is paid to the local public school district. The certified claims are submitted to the DOSS fiscal agent, the necessary edits are performed by the system, and payment is made. In using this process, there are no delays in the school district receiving its foundation funds. We feel that we are in compliance with the spirit of the statute.

The data system is not capable of tracking the amounts submitted by an individual school district, and comparing that amount with the amounts owed to the district for Medicaid costs. To build such a system would require an expenditure of funds in excess of the benefit derived. The Oversight Division explained that the legislative intent of routing the school funds through the HIF is

to offset administrative costs. While this option was discussed during the legislative development and passage of HB 564, in reality the above described accounting procedure proved to be burdensome and unnecessary because a simple option was developed. Consequently, the Division of Medical Services requested general revenue funding for administrative costs in the HB 564 fiscal note. These funds were appropriated by the General Assembly in our FY 95 budget. Our interpretation of the goal of this section of HB 564 is to work with the local public schools to maximize the health care of the children in the school districts. This goal is achieved by enrolling the schools as Medicaid providers, and reimbursing them for costs that would otherwise be borne by the school districts.

Department of Elementary & Secondary Education

House Bill 564 was not the first effort to withhold Medicaid earnings from districts. This notion has been extremely unpopular and accounts for many districts not participating in the Medicaid program. Secondly, the implementation of the HIF is entirely the venue of the Office of Administration and Department of Social Services. This organization cannot meaningfully affect its implementation. We should not be included among the agencies responsible for regulatory implementation of the HIF.

Conclusion

Participation in the Medicaid program in the schools increased substantially in SFY 94. Federal fund reimbursement in SFY 94 was \$6,017,162 for both the ACM and Direct Service programs; however, the level of participation represents only 11.8% of the school districts in the state. Even though several of the larger districts are enrolled and active in the program(s), there still remains approximately 55% of the Medicaid-eligible school population not enrolled in either the ACM or Direct Service programs. A projection of the potential federal fund reimbursement revealed that up to an additional \$11 million could be received if all school districts were enrolled in both the ACM and Direct Service programs. In most cases, the addition of new programs, as well as continuance of existing programs, would be necessary

to achieve this level of reimbursement. This projection is based upon the assumption that the level of reimbursement per Medicaid eligible will remain at the same level as in SFY 94. While it might not be feasible to expect that every school district will enroll in either one or both programs, it is essential to provide enough support to all school districts to allow them to make a more informed decision concerning participation in the Medicaid program(s).

In summary, the Medicaid program in the schools has resulted in more than \$6 million in federal fund reimbursement in SFY 94 and could increase considerably if additional school districts were enrolled in the program. Therefore, if the affected agencies develop a written plan defining the responsibilities of each agency, along with goals and methodology, the overall coordination of the program will be enhanced, as well as the effectiveness of staffs' efforts. Furthermore, re-alignment of the duties for the new FTE at DOSS should provide the necessary resources to assist in achieving the objectives set forth in the written plan, as well as to allow for implementation of other previously mentioned recommendations.

With respect to the items tested, the only non-compliance issues or deficiencies in management controls related to the Medicaid program in the schools as included in HB 564 that we detected are included in the previously noted findings. We considered all of the previously mentioned findings to be significant. With respect to the items not tested, nothing came to our attention that caused us to believe that the agencies affected were not in compliance with HB 564.